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GRAY DRUG STORES, INC.

ANNUAL REPORT TO SHAREHOLDERS...

FOR THE YEAR ENDED JUNE 30, 1957

GRAY DRUG STORES, INC.

MAIN OFFICE and WAREHOUSE • 2400 SUPERIOR AVE. • CLEVELAND, OHIO
LABORATORY • 1707 CRAWFORD RD. • CLEVELAND, OHIO

BOARD OF
DIRECTORS

OFFICERS

TRANSFER AGENT
AND REGISTRAR

AUDITORS

COUNSEL

STOCK LISTED

CARLYLE W. EVANS	President, Gray Drug Stores, Inc.
HENRY H. GRAY	Vice-President, Gray Drug Stores, Inc.
CHARLES B. MERRILL	President, Merrill, Turben & Co.
GEORGE F. PRYOR	Vice-President, The Cleveland Trust Co.
JOHN W. REAVIS	Partner, Jones, Day, Cockley & Reavis
ADOLPH WEINBERGER	Chairman of the Board, Gray Drug Stores, Inc.
CARL WEINBERGER	Buyer, Gray Drug Stores, Inc.

ADOLPH WEINBERGER	Chairman of the Board
CARLYLE W. EVANS	President
HENRY H. GRAY	Vice-President
MILTON M. NEUBAUER	Vice-President
LLOYD C. DOUGLASS	Vice-President & Treasurer
LOUIS BERWITT	Secretary
ROBERT E. BREIG	Assistant Treasurer
JOSEPH VALINS	Assistant Secretary

THE CLEVELAND TRUST COMPANY	Cleveland, Ohio
ERNST & ERNST	Cleveland, Ohio
JONES, DAY, COCKLEY and REAVIS	Cleveland, Ohio
MIDWEST STOCK EXCHANGE	Chicago, Illinois

PROGRESS REPORT

TWENTY EIGHT YEAR RECORD of PROGRESS

Fiscal	Stores End of Year	Net Sales	Net Income (3)	Earnings Per Common Share (4)	Dividends Paid Per Share
1929	17	$ 1,531,636	$120,107	$1.94	$ .81
1930	21	2,136,818	88,655	1.18	.97
1931	24	2,604,609	100,482	1.30	.98
1932	26	2,547,357	87,893	1.16	1.00
1933	26	2,498,932	80,382	1.06	1.00
1934	29	3,201,663	112,408	1.49	1.00
1935 (1)	29	1,790,809	57,587	.76	.50
1936	33	4,406,753	163,774	2.05	1.05
1937	37	5,384,723	243,088	3.04	1.90
1938	38	5,374,763	132,821	1.66	1.60
1939	38	5,154,803	113,863	1.42	.50
1940	40	5,509,435	139,430	1.74	.75
1941	39	6,925,221	172,476	1.92	1.00
1942	44	7,965,870	176,651	1.96	.75
1943	43	9,135,763	193,896	2.15	.50
1944	43	9,469,467	172,278	1.91	.75
1945	78	10,003,588	175,407	1.78	1.00
1946	91	14,700,500	366,910	2.47	1.22½
1947	91	17,496,500	388,284	2.80	1.30
1948	78	16,227,105 (2)	293,263	2.11	1.30
1949	79	15,643,806	241,014	1.74	1.05
1950	77	15,283,817	281,994	2.03	.80
1951	74	16,833,818	324,702	2.32	.80
1952	80	19,268,081	250,767	1.78	1.00
1953	78	21,075,426	327,898	2.32	1.00
1954	80	22,578,421	407,643	2.85	1.00
1955	78	23,390,391	470,560	3.20	1.00
1956	81	25,543,059	576,429	3.92	1.10
1957	86	29,333,474	690,880	4.42	1.40

(1) Six months ended June 30, 1935. Changed fiscal year from calendar year to one ending June 30.

(2) In addition to the drop in sales resulting from the sale of thirteen stores, at the beginning of this year state cigarette excise taxes are excluded from sales.

(3) Before reflecting reserves for contingencies which were restored to earnings retained in the business as of June 30, 1948.

(4) Based upon the number of shares outstanding at the end of each year, adjusted to reflect a stock split of 2 for 1 in February, 1930, and stock dividends of 3% in 1931 and 2% in 1932.

REPORT TO STOCKHOLDERS

September 10, 1957

To Our Stockholders:

The results of your Company's operations for the fiscal year ended June 30, 1957 are presented in this report.

Net sales of $29,333,474 again reached a new high in the Company's history, representing an increase of 14.84% over the $25,543,059 net sales for the previous fiscal year. After deducting all charges, including taxes, net income for the year was $690,880, or $4.42 a share of Common Stock, on 156,164 shares outstanding at June 30, 1957, as compared with $3.92 a share on 146,925 shares outstanding at the end of the preceding year. Profit before taxes was $1,404,880, or 4.79% of net sales, as compared with $1,206,429, or 4.73% of net sales for the year ended June 30, 1956.

As of June 30, 1957, your company was operating 86 stores as compared to 81 stores on June 30, 1956. During the year we opened six new units, all in modern shopping centers. Of these, four were our first stores in Chillicothe, Cincinnati, Hamilton and Willoughby; the other two expanded our coverage in Sandusky and Warren. One store in downtown Columbus was closed, to allow demolition of the present building, but this store will be re-opened at the same location with approximately 50% more space when new construction is completed. During the past year we also completed remodeling and re-fixturing of six stores in Cleveland and Akron. With one exception, all stores in the chain are now air-conditioned.

For the present year our plans call for the opening of nine more shopping center stores. Seven of these will provide added coverage in Ashtabula, Columbus, Dayton, Mansfield, Youngstown (one opened in August) and Warren; the other two will be new units in Lorain and Middletown. One small Columbus unit was disposed of in July. This year we also plan remodeling and re-fixturing of five more present stores. At present, leases have been signed for five more stores to be installed after June 30, 1958.

The expansion and remodeling of your Company's warehouse and office facilities, as projected in last year's report, is now complete. Included in this program was the installation of a "Univac" electronic file computer system for inventory control — the first such adaptation in the retail drug industry. More details are presented on a later page of this report.

We are also proud to report that your Company was honored as "Retailer-of-the-Year" among the nation's drug chains for the best merchandising of branded products during 1956. This coveted award, the "Oscar" of retailing, is explained in more detail on a later page.

The results of our operations are made possible only by the co-operation and efficiency of our employees, the continued loyalty of our stockholders and customers, and the counsel of our Directors. To them all, we extend our sincere appreciation for a successful year.

Respectfully,

Adolph Weinberger

CHAIRMAN OF THE BOARD

PRESIDENT

NEW STORES... SYMBOLS OF PROGRESS AND GROWTH

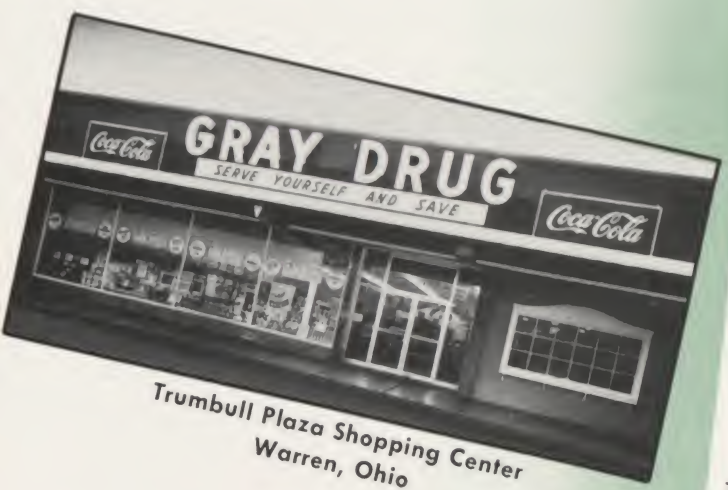
Interior and exterior view
Central Shopping Center, Chillicothe, Ohio

Here are views of the six new stores opened during the past year. All are in large shopping centers. They are representative of the modern, spacious, well-merchandised units with which your company maintains its leadership.

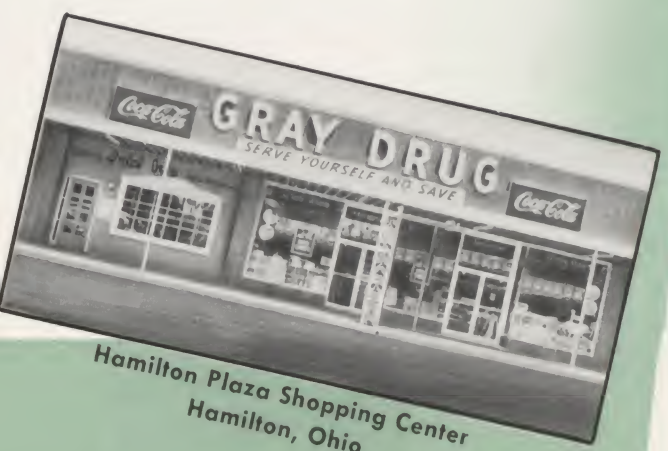
Kenwood Plaza Shopping Center
Cincinnati, Ohio

Sandusky Plaza Shopping Center
Sandusky, Ohio

Willo Plaza Shopping Center
Willoughby, Ohio



Trumbull Plaza Shopping Center
Warren, Ohio



Hamilton Plaza Shopping Center
Hamilton, Ohio

GRAY DRUG honored as national "RETAILER-OF-THE-YEAR"

For excelling in merchandising of "brand-name" products, your company was selected by the Brand Names Foundation as "Retailer of the Year" among the nation's drug chains during 1956.

A Univac Electronic File-Computer has been installed at our main office to assist in providing management with adequate and timely information pertaining to our business. The first application is to provide better inventory control of the 12,500 items carried in our warehouse stock. The program provides for automatically writing a pre-billed picking order for store shipments, and produce daily reports covering out-of-stock items, as well as those which have fallen below minimum stock requirements. Further applications offer the possibility of improving other accounting and clerical methods. The company is not only the first in Ohio to take delivery on one of these versatile high-speed computer systems but leads all of the nation's drug chains in adapting one to our particular field.

ACCOUNTANT'S REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated financial statements of Gray Drug Stores, Inc. and subsidiaries for the year ended June 30, 1957. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and earnings retained for use in the business present fairly the consolidated financial position of Gray Drug Stores, Inc. and subsidiaries at June 30, 1957, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 29, 1957

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash			$ 1,370,039
Accounts receivable, less allowance of $10,000			234,100
Estimated refundable federal taxes on income			44,000
State tax stamps			97,639
Inventories — priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$ 3,407,884	
At warehouse		1,779,132	
		$ 5,187,016	
In transit		102,061	5,289,077
TOTAL CURRENT ASSETS			**$7,034,855**
OTHER ASSETS			123,064
FIXED ASSETS — at cost			
Furniture and fixtures	$ 2,694,207		
Leasehold improvements	1,934,215	$ 4,628,422	
Less allowances for depreciation and amortization		2,022,100	2,606,322
PATENTS AND TRADE-MARKS			1
DEFERRED CHARGES			119,169
			$9,883,411

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Portion of long-term debt due within one year		$ 182,176
Accounts payable and accrued expenses:		
Trade accounts and sundry accrued items	$ 1,701,835	
Salaries, wages and commissions	398,370	
Payroll taxes and taxes withheld from employees	117,452	
Taxes other than federal taxes on income	182,262	
Rent and interest	205,829	2,605,748
Federal taxes on income — estimated		737,613
TOTAL CURRENT LIABILITIES		**$3,525,537**

LONG-TERM DEBT

Note payable to insurance company — Note A	$ 758,553	
Less portion classified as current	182,176	576,377

SHAREHOLDERS' EQUITY

Capital stock, par value $1 a share—Note B.		
Authorized — 165,000 shares		
Outstanding — 156,164 shares	$ 156,164	
Capital in excess of par value — Note C	2,057,565	
Earnings retained for use in the business—	$ 2,213,729	
Note A	3,567,768	5,781,497
		$9,883,411

See notes to financial statements.

STATEMENT OF CONSOLIDATED EARNINGS RETAINED FOR USE IN THE BUSINESS

GRAY DRUG STORES, INC. AND SUBSIDIARIES • Year ended June 30, 1957

Balance at July 1, 1956		**$ 3,085,816**
Net income for the year		690,880
		$ 3,776,696
Cash dividends declared:		
$.35 a share paid October 1, 1956	$ 51,424	
$.35 a share paid January 2, 1957	51,424	
$.35 a share paid April 1, 1957	51,423	
$.35 a share paid July 1, 1957	54,657	208,928
BALANCE AT JUNE 30, 1957		**$3,567,768**

See notes to financial statements.

STATEMENT OF CONSOLIDATED INCOME

GRAY DRUG STORES, INC. AND SUBSIDIARIES • Year ended June 30, 1957

NET SALES		**$29,333,474**
Cost of goods sold		18,037,749
		$11,295,725
Other operating income		98,446
		$11,394,171
Selling, general, and administrative expenses		9,939,798
		$ 1,454,373
Other income		8,990
		$ 1,463,363
Interest expense		58,483
INCOME BEFORE FEDERAL TAXES ON INCOME		**$ 1,404,880**
Federal taxes on income — estimated:		
Provision for the year	$ 808,000	
Adjustments of prior years	94,000*	714,000
NET INCOME		**$ 690,880**

* Indicates red figure.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC. AND SUBSIDIARIES • Year ended June 30, 1957

NOTE A — The loan agreement provides for interest at the rate of 3¾% per annum, for repayment in semi-annual installments of $50,000, and for additional payments each year equal to 20% of the excess of consolidated net income for the preceding year over $280,000 ($82,176 will be due on November 1, 1957, under such requirement); however, each additional payment shall not exceed $100,000. The loan agreement, and a credit agreement with a bank under which no borrowing had occurred at June 30, 1957, include certain provisions relating to the maintenance of consolidated net current assets and restrictions on the payment of dividends. Accordingly, consolidated earnings retained for use in the business available for dividends amounted to $896,762 at June 30, 1957.

NOTE B — On May 24, 1955, options were granted to certain officers and key employees (three of whom are directors) to purchase 15,000 shares of the capital stock of the Company. The option price was $16.37½ per share, which represents the quoted market value at the date of grant, except that the option price to two employees (related to principal shareholder) was $18.70 per share to permit qualification as a restricted stock option. The aggregate option price of all shares was $253,995.

On May 24, 1957, all of the options became exercisable. During the year ended June 30, 1957, options for 9,239 shares were exercised and at June 30, 1957, 5,761 shares were subject to options expiring May 23, 1960.

NOTE C — The increase of $143,768 in capital in excess of par value represents the excess of proceeds from sales of capital stock sold under the Company's stock option plan over the aggregate par value of such shares.

NOTE D — The Company deposited funds with a dividend disbursing agent on June 27, 1957, for the dividend payable on July 1, 1957.

NOTE E — The companies were lessees at June 30, 1957, under a number of leases extending from one to nineteen years. The aggregate annual minimum rental payable (many of such leases provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $1,200,000.

NOTE F — Allowances for depreciation and amortization aggregated $465,372 for the year.

NOTE G — Total contributions under the pension plan for employees of the companies amounted to approximately $108,000 for the year ended June 30, 1957, including amortization of the cost of past service benefits to retirement age of participants. At June 30, 1957, the unfunded cost of past service benefits was approximately $31,000.

GRAY DRUG STORES, INC.

OPERATING EIGHTY-SIX STORES

locations shown on map below:

● *Stores in operation at present . . .*

○ *Stores not yet in operation . . .*

1 9 5 7